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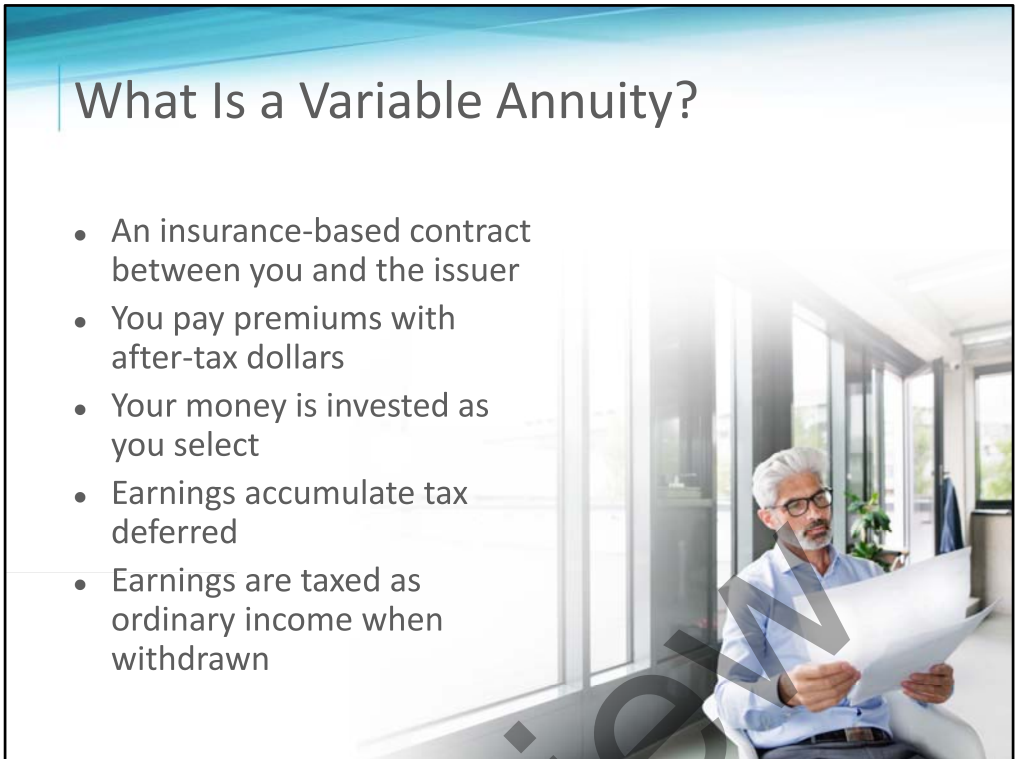

What is a variable annuity? A variable annuity is an insurance-based contract between you (the owner) and the contract issuer.
This is basically how a variable annuity works: You pay after-tax dollars to the issuer, your money is invested in accordance with your specifications, and any earnings accumulate tax deferred. At some point, the issuer pays out the principal and any earnings to you or to your beneficiaries. Earnings are taxed as ordinary income when they're withdrawn. Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax unless an exception applies.

Why consider buying a variable annuity?

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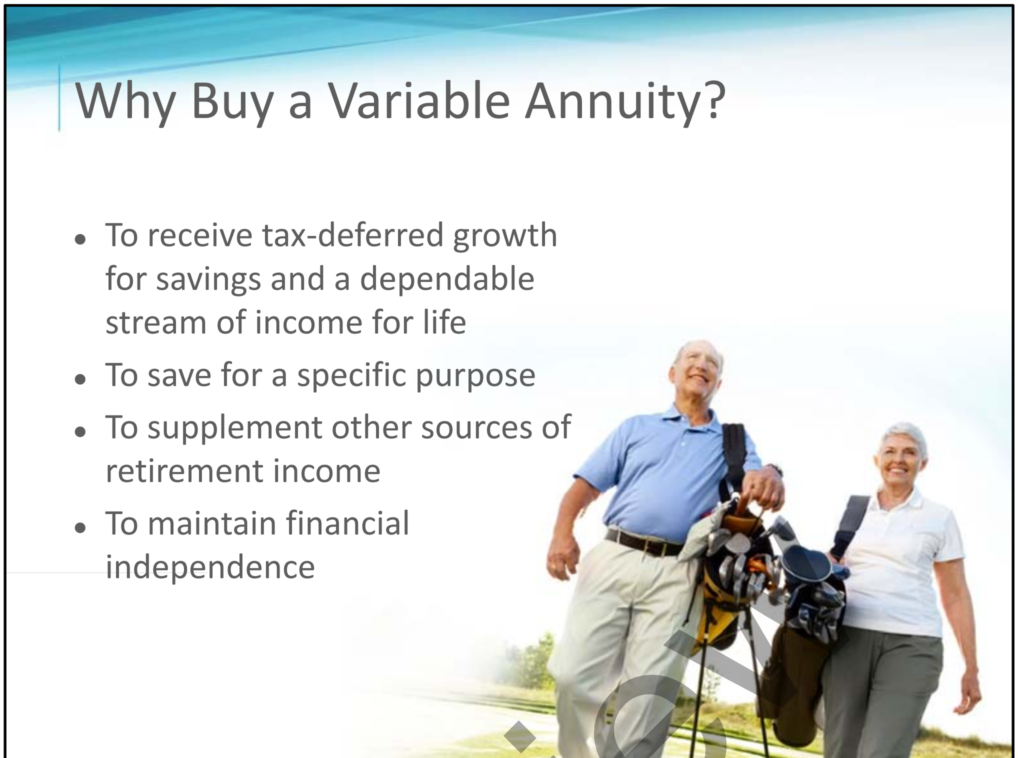

The primary features of annuities are tax-deferred growth for savings and a steady stream of income that can last for the rest of your life. These characteristics allow annuities to be used for many purposes.

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You can use an annuity to save for any specific purpose or long-term goal, such as providing a legacy for your heirs or making a charitable gift.

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If you annuitize, which we'll talk about later, a variable annuity can provide a source of lifetime income, even if you live to a very old age.

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The income and savings provided by an annuity may help you remain financially independent, so that you won't be dependent upon your children for financial help or care-giving. For example, you can use the annuity income to pay for your own long-term care expenses, rather than rely on your children for care.

But one of the primary benefits of an annuity is its tax-deferred growth.

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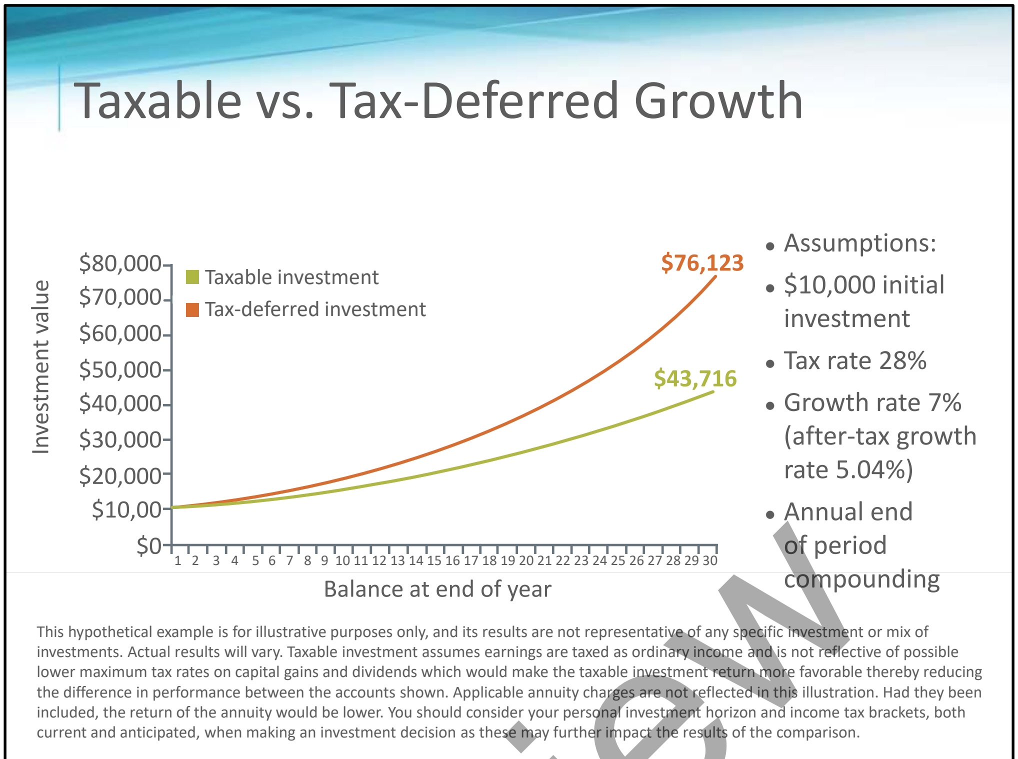

Here's an illustration of the advantage of tax-deferred earnings growth over earnings growth that's taxed every year. Let's assume you make a lump-sum investment of $10,000 that will compound annually at the end of the year, and you're in the 28% income tax bracket. Let's also assume all investments earn 7% each year in income.

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If you invest that money in an alternative that's taxed each year, in 30 years you'll accumulate a total of $43,716.

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But if you invest that money in a vehicle that allows tax-deferred growth, in 30 years you'll accumulate $76,123--more than you'd have earned investing the same amount for the same length of time in an alternative that's taxed annually. Why? Because the money that's not going to taxes keeps compounding, and as Albert Einstein is reputed to have said, "compound interest is the greatest mathematical discovery of all time."

While the annuity's earnings accumulate tax deferred, they are subject to income tax when you withdraw them.

Of course, annuities aren't the only choice that offers tax-deferred growth potential; retirement plans such as 401(k)s and individual retirement arrangements (IRAs and Roth IRAs) do that as well.

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Annuities vs. 401(k)s and IRAs

Feature	Annuities (Nonqualified)	401(k)s and Traditional IRAs	Roth IRAs
Tax-deferred earnings	✓	✓	✓
Tax-deductible or pretax contributions		✓	
Unlimited contributions	✓		
*Guaranteed minimum death benefit	✓		
RMDs		✓	
*Tax on withdrawals	✓	✓	
*Guaranteed lifetime income	✓		
*Fees and charges	✓	✓	✓

***Guarantees are subject to the claims-paying ability and financial strength of the issuer. The earnings portion of annuity withdrawals is subject to income tax at ordinary income tax rates. Pretax or tax-deductible contributions and pretax earnings are subject to income tax at ordinary tax rates when withdrawn. Annuities, particularly variable annuities, may impose higher fees, charges, and expenses than the other plans.**

So how do annuities stack up against 401(k)s, IRAs, and Roth IRAs?

First, annuities are a financial product sold by or through an insurance company. On the other hand, IRAs and Roth IRAs are personal savings plans, while 401(k)s are savings plans for employees offered by their employers. IRAs, Roth IRAs, and 401(k)s can be funded with a number of different investments, including stocks, bonds, mutual funds, and annuities. But you can also own an annuity separate and apart from your IRA, Roth IRA, or 401(k).

In any case, annuities, IRAs, Roth IRAs, and 401(k)s share some common features and some different characteristics as well.

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The earnings within each of these vehicles grows tax deferred, meaning you don't have to pay income taxes on the growth within these plans until they're withdrawn.

Unless an annuity is held within a 401(k) or IRA, annuity premium payments are made with after-tax dollars, similar to a Roth IRA.

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Only 401(k)s and IRAs offer tax-deductible or pretax contributions.

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There's no limit on the amount you can contribute to annuities, while the other plans have specific limits on how much you can contribute to each.

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Annuities often provide a guaranteed minimum death benefit to your heirs, which none of the other plans provide, unless they're funded by annuities or, in the case of 401(k)s, life insurance.

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You generally are obligated to take required minimum distributions from your 401(k)s and IRAs after you reach age 70½, but there's no such requirement for annuities and Roth IRAs.

As long as you satisfy specific requirements, withdrawals from Roth IRAs are not subject to income tax.

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However, all distributions of pretax contributions and earnings from 401(k)s and IRAs are taxed as ordinary income. Only the earnings portion of annuity distributions is subject to income tax.

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Here's what may be one of the most important distinctions between annuities and other retirement plans: an annuity can be annuitized, or converted into a stream of payments you, or you and your spouse, can't outlive. While it's entirely possible that the funds you accumulate in an IRA or 401(k) could last for your entire life, there's generally no guarantee--it's possible you could outlive your funds.

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Each of these plans has some fees and charges that can differ based on the investment vehicle selected. Annuities, particularly variable annuities, may impose higher expenses than 401(k)s, IRAs, and Roth IRAs.

There are different types of annuities, which we'll discuss briefly, but there are some basic characteristics common to most types of annuities.

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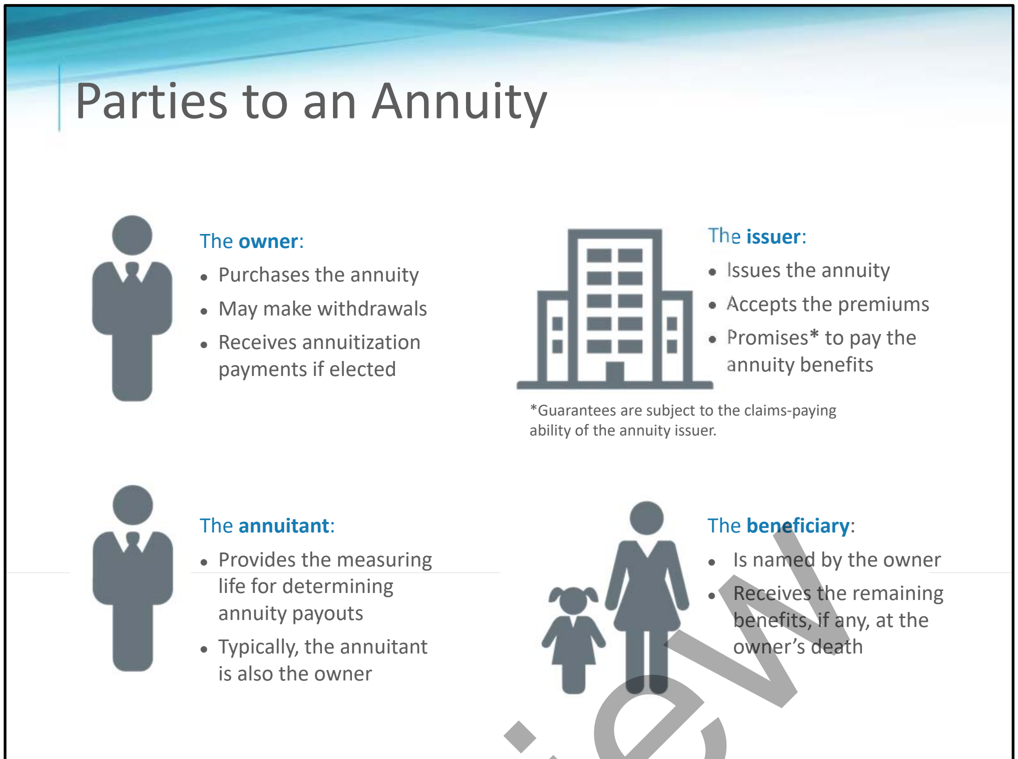

There are generally four parties to any annuity contract. The **owner** usually purchases the annuity, pays the premiums, and names the beneficiary (if any) in the event of death. The owner can make withdrawals from the annuity or surrender it, and is generally the party who receives the payments if the annuity is annuitized.

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The **issuer** of the annuity contract is generally an insurance company. The issuer accepts the premium payments, invests them in accordance with the annuity contract, and promises to pay whatever benefits the annuity contract stipulates.

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The **annuitant** provides the "measuring life" used to determine the amount of the payments if they're made for life, called annuitization. Typically, the annuitant is also the owner of the annuity.

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The **beneficiary**, named by the owner of the annuity, receives the proceeds of the annuity if the owner dies before annuitization, or receives the remaining benefits (if any, depending on the annuitization option chosen) at the time of the owner's death.

You can put money in an annuity and let it earn interest, or you can begin to receive payments almost immediately.

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Annuities are classified as either immediate or deferred annuities. These terms simply refer to when the distribution phase of the annuity begins.
Immediate annuities convert a lump sum of cash into an income stream. They are typically purchased with a single payment, and the distribution period usually begins within a year of the purchase.

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While deferred annuities may be purchased with a single lump-sum premium payment, they are most often purchased with a series of periodic payments. The distribution period begins some time in the future, which allows any earnings to grow on a tax-deferred basis. However, you can make withdrawals at any time, subject to possible surrender charges, as we'll discuss later.

Now let's look at putting money in a variable deferred annuity.

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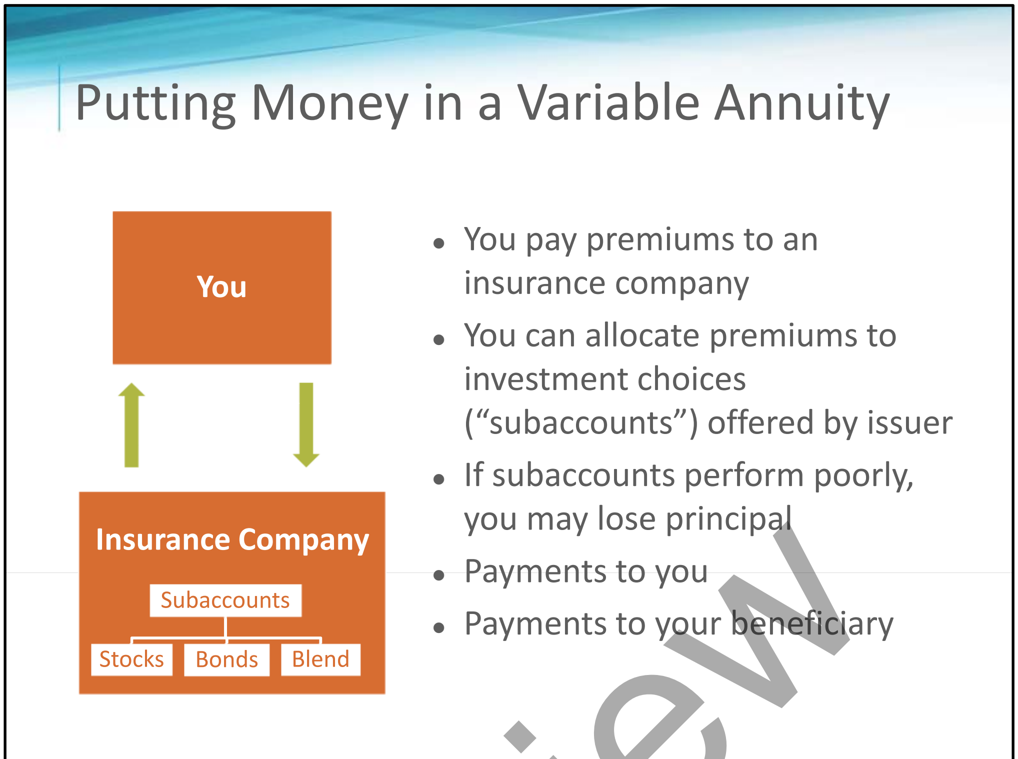

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Typically, you make a single or multiple payments, called premiums, to an insurance company.

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Variable annuities generally offer you a wide variety of investment choices, called subaccounts. Generally, you can allocate premiums to subaccounts specializing in different investment options, including:
- Government securities
- Corporate bonds
- High-yield bonds
- Common stocks
- A balance between stocks and bonds

You can also transfer funds among subaccounts without incurring commission charges or triggering a taxable event. These subaccounts are generally not accessible to the issuer's creditors.

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With the exception of a subaccount in which the issuer guarantees a minimum rate of interest, variable annuities don't offer any guarantees on the performance of their subaccounts. You assume all the risk related to those investments. In return for assuming a greater amount of risk, you may experience a greater potential for growth in your earnings. However, it's also possible that the subaccounts will perform poorly, and you may lose money, including principal. You should consider purchasing a variable annuity only if you're willing to assume the risk inherent in investing.

<CLICK>
Your subaccount earnings grow tax deferred until you withdraw them or begin taking annuitization payments. (Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax.)

<CLICK>
Most variable annuities also provide a death benefit to the beneficiaries you name in the contract.

What are some variable annuity death benefit options?

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